SOUTH CAROLINA DEPARTMENT OF PARKS, RECREATION, AND TOURISM

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2000

CONTENTS

State of South Carolina

Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 9, 2001

The Honorable Jim Hodges, Governor
And
Mr. John Durst, Executive Director
South Carolina Department of Parks, Recreation, and Tourism
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Parks, Recreation, and Tourism (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2000, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Deposits and Coding of Accounting Transactions in the Accountant's Comments section of this report.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Coding of Accounting Transactions.

3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

4. We tested selected recorded journal entries and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual journal entry transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Coding of Accounting Transactions in the Accountant's Comments section of this report.

5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2000, and tested selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2000. Our findings as a result of these procedures are presented in Reconciliations, Schedule of Federal Financial Assistance, Deposits, Closing Packages, and Coding of Accounting Transactions.

8. We reviewed the status of the deficiencies described in the findings reported in the Accountants' Comments section of the report on Agreed-Upon Procedures on the Department's accounting records resulting from the independent accountants' engagement for the fiscal year ended June 30, 1999, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Reconciliations, Schedule of Federal Financial Assistance, Deposits, and Closing Packages – Fixed Asset Additions in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2000, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the management of the South Carolina Department of Parks, Recreation, and Tourism and is not intended to be and should not be used by anyone other than these specified parties.

Tom Wagner

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

RECONCILIATIONS

We selected the reconciliations for the months of September 1999 and March 2000 to review the agency's procedures and documentation for its monthly reconciliations of revenues, expenditures, and ending cash balances. We also reviewed the year-end (fiscal month 13) reconciliations. We found that some reconciliations were not performed in a timely manner. On all reconciliations, there was no evidence they were reviewed by an appropriate supervisory employee other than the preparer. Based on our inquiries, we were told that such reviews had not occurred. Many of the tested reconciliations were not signed and dated by the preparer. Furthermore, none of the reconciliations were documented in an easily understandable format. For the year-end reconciliations, variances between the account balances in the two systems were not explained in sufficient detail and some variances weren't investigated, explained, and corrected. Also, the Department did not reconcile its federal funds to the Comptroller General's CSA 467CM report. Similar deficiencies were reported in the Report on Agreed-Upon Procedures applied to the Department's accounting records and controls for fiscal year 1999. Because that report was issued at the end of fiscal year 2000, the agency told us they were not able to implement corrective action until fiscal year 2001.

When reconciliations aren't performed properly and timely, errors in the accounting records will exist and won't be detected and corrected resulting in errors in the State's and the Department's financial statements. Consequently, inaccurate information is provided to State and agency managers for decision-making.

Section 2.1.7.20C. of the Comptroller General's Policies and Procedures Manual (STARS Manual) explains that monthly reconciliations for revenues, expenditures, and ending cash balances must be performed in order to detect errors in the agency's and/or the State's accounting system (STARS). For agencies with federal funds, monthly reconciliations must be performed between the agency's accounting records and the CSA 467CM report. The

STARS Manual states that such reconciliations must be performed on a timely basis (i.e. shortly after month-end); documented in writing in an easily understandable format with all supporting working papers maintained; signed and dated by the preparer; and reviewed and approved in writing by an appropriate, independent agency official.

We recommend that the agency develop and implement procedures to ensure that the required reconciliations are performed and reviewed properly and timely and documented adequately in the level of detail and manner as prescribed and errors identified in the process are promptly corrected.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We reviewed the Department's schedule of federal financial assistance for fiscal year 2000 and noted the following deficiencies:

1. The agency listed eight of the 12 grants with the wrong or no CFDA number.
2. Two grant titles did not correspond to the titles in the CFDA catalog.
3. The agency failed to include the fund source code for any of the grants.
4. The Department did not maintain supporting documentation (e.g., grant award letter) for six grants.
5. Schedule information (project numbers, revenues, expenditures and/or cash balances) differed from that on the STARS CSA 467CM report for nine grants. [The agency did not reconcile its accounting records to the CSA 467CM report – see Reconciliations comment].

Similar deficiencies regarding difference between information on the schedule and that in the accounting records were reported in the Report on Agreed-Upon Procedures on the Department's accounting and related information and controls for fiscal year 1999.

The State Auditor's letter of instructions describes the Department's responsibilities for preparing and submitting its schedule of federal financial assistance to the State Auditor's Office. A system of effective accounting controls requires that employees be adequately trained and knowledgeable about their assignments to help ensure they properly and timely complete them. It also requires that adequate supporting documentation be maintained for all recorded transactions of the agency. In addition, internal controls should include supervisory monitoring of employees and their work.

We recommend that the agency provide staff appropriate training and document and implement written, agency-specific procedures regarding the preparation and independent review of its schedule of federal financial assistance in accordance with the State Auditor's instructions to ensure all information thereon is correct, complete, and agrees with the accounting records and with supporting documentation for the schedule, including the CFDA catalog.

DEPOSITS

We tested a sample of cash receipts which included deposit transactions initiated by the various parks and by the agency's finance department. We were unable to determine if all five of the finance department cash receipts tested were deposited in a timely manner and in the proper fiscal year because the Agency did not document the dates the monies were received. A similar finding was presented in the Receipts comment in the Report on Agreed-Upon Procedures for fiscal year 1999.

Because cash is the asset which is most vulnerable to loss, adequate internal control procedures require the agency to initiate accounting control over monies immediately upon collection and to timely deposit receipts. Furthermore, Part IB of each Appropriation Act (Proviso 72.1. of the 2000 Act) requires that collections be deposited at least once each week when practical.

We recommend that the Department implement procedures to ensure that each cash receipt is properly documented including the date of collection and is timely deposited.

CLOSING PACKAGES

Introduction

The State Comptroller General's Office obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to prepare the State's financial statements. Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions. Section 1.9 requires agencies to keep working papers to support each amount they enter on each closing package form. The GAAP Manual recommends assigning the responsibilities for preparation and independent supervisory review of each closing package to knowledgeable and trained employees and recommends performing an effective review of each closing package and the underlying working papers to minimize closing package errors and omissions. To assist in performing effective reviews, the GAAP Manual instructions require a reviewer checklist to be completed for each closing package submitted.

Sections 3.7 through 3.12 contain guidance and instructions for completing fixed assets and accounts payable closing packages.

Fixed Asset Additions

As reported by other auditors in their Report on Agreed-Upon-Procedures for the Department's fiscal year 1999 activities, the agency (in accordance with GAAP Manual instructions) labeled certain amounts "unexplained differences" on its fixed assets closing package forms in order to reconcile additions to the fiscal year-end 1999 fixed asset totals obtained from a physical inventory. For fiscal year 2000, we identified a difference that was not explained on the closing packages because it was reported by overstating noncapitalizable expenditures and misstating additions. The Department reported noncapitalizable permanent improvement project expenditures of $2,662,737 on the Fixed Asset Additions Reconciliation Form (reconciliation form). Of this amount, there was supporting documentation for all but $500,960, the amount needed to balance total additions on the reconciliation form to total additions as reported on the General Fixed Assets Summary Form (summary form).

We also determined that additions for construction in progress of $477,531 as reported on the summary form were understated $51,427 because the agency failed to include several vouchers with capitalizable charges for permanent improvement projects. In addition, the agency failed to timely capitalize fixed assets acquired under capital lease agreements. GAAP require capitalization of a fixed asset acquired by capital lease at the inception of the lease at the lower of the fair market value of the leased asset or the present value of the minimum lease payments. However, the Department capitalized a portion of the value of such assets at the amount of each principal payment when each periodic payment was made for its four capital leases with inception dates in fiscal years 1996 through 1999.

Accounts Payable

The Department reported $6,239 in contract retentions from payments to contractors for construction project number 9632 under the repair, maintenance, and renovation category (GAAP fund code 2007) on the accounts payable closing package. Regarding completion of the Accounts Payable Summary Form – Permanent Improvements, Section 3.12 of the GAAP Manual directs the preparer to Appendix F which lists project numbers and corresponding GAAP fund codes. Appendix F shows project number 9632 corresponds to GAAP fund code of 2060; therefore, it should have been reported under the capital projects category, not the repair/renovation category. This error also caused fixed assets to be understated because retainages payable for capital projects are reported as additions to fixed assets on the Fixed Assets Additions Reconciliation Form.

Recommendations

We recommend that, when making staff assignments for preparing and reviewing closing packages, the Department should ensure that the selected employees are properly trained in and knowledgeable of the applicable GAAP and GAAP Manual guidance and instructions. Also, these employees should be thoroughly familiar with the agency data related to the information to be reported on the assigned closing package forms. Each reviewer should perform an effective review of the assigned closing packages. We recommend that each review include completion of the required reviewer checklists; tracing each amount from the form to the supporting documentation (e.g., closing package worksheets) to the agency's accounting records; determining that the methodology used in compiling data is appropriate; and determining the methodology produced the reported results. The reviewer should also determine all amounts are supported by adequate and accurate documentation. With respect to fixed assets, all additions reported on the summary form should equal specific, identifiable, and explained additions reported on the reconciliation form.

CODING OF ACCOUNTING TRANSACTIONS

We found that the Department misclassified certain revenue and expenditure transactions as follows:

1. In our review of the fixed assets additions closing package, we noted that $13,888 for equipment and building improvements was charged to supplies and materials expenditure object codes in error.

2. While comparing the agency's fiscal month thirteen general ledger account balances to those on Comptroller General reports, we noted two instances in which the Department used incorrect mini codes.

These errors may have occurred because personnel assigning and reviewing codes failed to carefully review the nature and purpose of the goods/services on the purchasing and other supporting documents (e.g., invoices) to determine the proper codes or they were not adequately familiar with code definitions. In addition, supervisory employees may not have provided the appropriate level of oversight and performed an adequate review of transactions before approval and of reconciliations after preparation. The failure to review transactions and coding may result in the failure to detect errors prior to processing the documents.

Sound accounting practices require that staff be knowledgeable and adequately trained to perform their assigned duties for coding and processing documents and that transactions be independently reviewed and approved to ensure proper recording. Sections 2.1.6.10 and 2.1.6.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual) give detailed descriptions of the revenue and expenditure object code and other classifications.

We recommend the Department establish policies for assigning purchasing and accounting responsibilities which ensure that employees have the requisite knowledge and training about the proper accounting treatment and transaction coding for all types of transactions to perform their duties. In addition, we recommend that the agency design and implement appropriate and adequate procedures and practices to ensure that personnel responsible for account numbers, revenue and expenditure object codes, and other coding on procurement, disbursement, adjustment, and other accounting documents carefully review supporting documentation before assigning the coding. The Department should establish the appropriate levels of supervisory and other reviews and management oversight regarding document preparation, review, and processing; job performance; and authorization of transactions which include independent reviews of documents and transactions while preparing and processing disbursement vouchers and other documents prior to approval and recording.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the Report on Agreed-Upon Procedures on the Department's accounting records and internal controls for the fiscal year ended June 30, 1999, and dated May 26, 2000. We determined that the Department has taken adequate corrective action on each of the deficiencies except for certain ones which have been repeated and reported in the Reconciliations, Schedule of Federal Financial Assistance, Deposits*, and Closing Packages – Fixed Assets Additions comments in Section A of the Accountant's Comments section of this report. In response to our inquiries, we were told that the Department has developed and implemented procedures to correct the Reconciliations weaknesses reported in the prior year. However, because the procedures were implemented after June 30, 2000, we did not perform tests to determine if the new procedures are operating effectively.

*The comment title in the 1999 report related to the deposits findings was Receipts.

MANAGEMENT’S RESPONSE

South Carolina
Department of Parks, Recreation & Tourism
Division of Administration

Office of Finance

August 22, 2001

Mr. Thomas L. Wagner, Jr., CPA
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

We have reviewed the Accountant's Comments for the year ended June 30, 2000 and herein submit our comments:

Accountant's Comments

1. Reconciliations

Management agrees and our current method for monthly reconciliations matches your recommendations. A similar finding was reported in last years audit but due to the audit being performed so late the correction could not be made until FY2001. The corrections have been made for FY2001 and are being followed according to your recommendations.

2. Schedule Federal Financial Assistance

Management agrees and will adhere to the instructions for proper completion of the SFFA. Again a similar finding was reported in last years audit but due to the audit being performed so late the corrections could not be made until FY2001. The corrections have been made for FY2001 and are being followed according to your recommendations.

3. Deposits

Management agrees and understands what is required for cash receipts management. Management further understands that due to a lack of centralized receipting of cash and checks, the Finance Office sometimes is not receiving information in a timely manner for deposit. A policy has been established and an agency wide e-mail has been sent out on the correct procedures for receipting cash and checks.

4. Closing Packages

Management agrees with the deficiencies in the fixed assets closing package. Furthermore, management is working to implement a new fixed asset system to comply with GASB 34. KPMG has been brought in to assist us with the implementation. Through this implementation a complete overhaul of the fixed assets is being done. This will include a new fixed assets system as well as complete valuation records of each asset. We believe this will help improve our deficiencies in this area.

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Management also agrees with the miscoding of contract retentions in the Accounts Payable package. We will continue to review the GAAP Closing Manual and follow the instructions set forth in this manual for completion of the package.

5. Classification of Accounting Transactions

Management agrees that review of supporting documentation needs to be monitored closer so as to avoid errors in misclassifications. Proper training of employees has been completed so that employees understand what to look for when coding accounting transactions.

We appreciate the assistance that the management letter provides to us in our internal control and fiscal management efforts and hereby give our release authorization. We thank your staff for all their help and advice during our audit.

Sincerely,

Benjamin

Ben Duncan, Director
Division of Administration

cc: John Durst
Ron Carter

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